Full Faith and Credit Act (H.R. 421)
Frequently Asked Questions
Rep. Tom McClintock

**What is the primary purpose of H.R. 421, the Full Faith and Credit Act (FFCA)?**

The FFCA would provide certainty that the United States will not default on its debt, even if the debt ceiling were reached. This would safeguard the United States' triple-A credit rating during current and future debates over debt ceiling increases.

Currently, there is uncertainty surrounding whether the ceiling will be raised and by how much, the date through which the federal government is solvent without a ceiling increase, and whether Treasury would default on U.S. debt obligations as a first resort (as suggested by Treasury Secretary Geithner[1]). Each of these factors represents a threat to U.S. creditworthiness, and each is addressed by the FFCA.

In short, the FFCA simply provides certainty to creditors and ratings agencies – which have repeatedly warned that the United States' triple-A credit rating is in imminent peril – that the U.S. government will repay its debts while Congress debates how to balance the budget.

**Does this bill address whether the debt ceiling should be raised?**

No. It does not address whether the debt ceiling should be raised or by how much.

**What would happen if the United States defaulted on its debt?**

The results would be catastrophic for American families, businesses, and for the federal government. Interest rates for U.S. Treasuries would skyrocket, causing the cost of servicing current debt to increase, which in turn would require more borrowing. This snowball effect would have disastrous consequences for the federal budget and the global economy. Default would cause borrowing costs for families and businesses to spike as well, because interest rates for private loans are tied to interest rates for U.S. Treasuries (which serve as a baseline).

**Is default on debt the same as default on other obligations?**

Default on different U.S. government obligations would have a range of undesirable consequences and should be avoided. However, contrary to Secretary Geithner's assertions, default on the debt would have a *uniquely* devastating economic impact.[2] In fact, even the *threat* of default raises the cost of U.S. government borrowing, and by extension, borrowing costs for American families and businesses.

**Does the FFCA prioritize U.S. government obligations other than debt service?**

No. The bill does not prioritize any obligation other than debt service. It would still be possible for Congress or the Treasury Department to do so.

[1] Letter from Secretary Geithner to Sen. Reid, January 6, 2011.
[2] Kevin Hassett (AEI scholar, former Senior Economist at the Board of Governors of the Federal Reserve). The Enterprise Blog. http://blog.american.com/?p=26461

**Does the FFCA give new power to the Treasury Department?**

Absolutely not. By prohibiting the Treasury Department from defaulting on U.S. debt as a first resort, this bill actually asserts Congress' appropriate role in determining how government revenues are spent.

**Does the FFCA put China before American citizens?**

No. Less than half of U.S. debt is foreign owned, and China owns only approximately 10 percent of the U.S. debt held by the public.[3] By contrast, U.S. households own 12 percent, U.S. pension funds own almost 9 percent, and money market and mutual funds own 7 percent.[4] Debt service is critically important to U.S. citizens, their retirement funds, and the U.S. economy.

**Does the federal government have enough revenue to cover interest on the debt?**

Yes, by a factor of ten. Total expected revenues during FY2011 is $2.567 trillion, while the estimated cost of interest on the debt for FY2011 is $250 billion (less than 10 percent of total revenue).

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[3] Major Holders of Foreign Debt, U.S. Treasury, Dec. 2010
[4] U.S. Federal Reserve, Flow of Funds Accounts of the United States, Dec. 2010